THE CANADA – UNITED STATES FREE TRADE AGREEMENT

A QUEBEC VIEWPOINT

Québec

©Ministère du Commerce extérieur
et du Développement technologique

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The original French document is available upon request.

Le texte original français est disponible sur demande.

FOREWORD

Canada and the United States maintain the closest, most extensive economic relations of any two countries in the world; both partners benefit considerably from this situation. This is hardly surprising, as everything encourages both countries to trade with each other, if only because of shared history and geographic proximity. However, in international trade, nothing is to be taken for granted. Good relations must be constantly cultivated if they are to endure and bear fruit.

In recent years, trade between Canada and the United States has changed appreciably. To better deal with world trade, Canada had to reflect at length on the nature and organization of its economic relations with the United States. For this reason, negotiations launched in 1986 and the signing on January 2, 1988 of the Free Trade Agreement strike me as a major event, spinoff from which will be felt on both sides of the border.

International trade occupies an important place in the economy of Canada and that of Québec, in particular. Québec exports to the other provinces and the rest of the world account for 40 percent of its GDP. Québec, like Sweden, West Germany, Switzerland and the Netherlands, has a very open economy, compared with the United States and Japan, whose exports as a proportion of GDP are much lower, i.e. 5.5 percent and 15.9 percent, respectively.

The United States is by far our best foreign customer: in 1987, it purchased 77 percent of all Québec exports shipped outside Canada. The preceding year, Québec exports to the state of New York alone totalled $2.9 billion, almost six times the value of exports to the United Kingdom, Québec's second best customer.

Since the early 1980s, the United States has been in the throes of an enormous trade deficit, which must at all costs be reduced. Consequently, a new wave of protectionism has appeared and, little by little, is gaining ground among American politicians. This trend is highly disturbing to a number of trading partners of the United States, especially Japan. Given the importance of the U.S. market in terms of Canadian and Québec exports, protectionism is viewed with particular concern here.

It is in this perspective that free trade talks were undertaken in 1986. The time could not have been more opportune to discuss free trade with the United States, with a view to increasing our presence on the American market and maintaining our market share in light of rising protectionism.

The Québec government had a simple objective, i.e. to reach an agreement which is advantageous for all concerned parties and which contributes to our economic development by creating jobs, enhancing the competitiveness of Québec firms and increasing investment in Québec. Our demands focused, among other things, on the continued

recognition of the existing division of federal and provincial powers. Moreover, we did not want our social, cultural and language policies to be subject to negotiation.

As this document reveals, Québec's conditions have been met, although our support for the Free Trade Agreement is not based solely on experts' analyses. Quebecers from all walks of life commented favourably on the Agreement during the hearings of the Parliamentary Commission held in September 1987. Similar support was expressed in the report of the advisory committee on trade negotiations, under the chairmanship of Jack H. Warren. The committee's distinguished members represented the Québec private and public sectors.

Although the leaders of Canada and the United States have already signed the Free Trade Agreement, Québec still has to settle three very important questions with the federal government in the coming months, i.e. ajustment measures, the participation of the provinces in managing the Agreement and in settling disputes, as well as the actual implementation of the Agreement. This step is essential in that it will enable Canadians, and Quebecers, to implement the Free Trade Agreement in the most harmonious manner possible.

The following analysis reviews the main points in the Free Trade Agreement from a Québec perspective. It is neither a macroeconomic study nor a sectorial study of the impact of the Agreement on each industry. Some readers will find it overly technical, others, insufficiently detailed. In my view, an analysis of the actual Agreement leads us to conclude that the document signed on January 2, 1988 by Prime Minister Mulroney and President Reagan marks an important step forward for Québec.

Pierre MacDonald,
Ministre du Commerce extérieur
et du Développement technologique

OVERVIEW

The Canada-U.S. Free Trade Agreement was signed by Prime Minister Mulroney and President Reagan on January 2, 1988 and will be submitted for ratification to Parliament and Congress in the coming months. Once ratified, it will come into force on January 1, 1989. Québec will amend some legislation and regulations to permit the implementation of the Agreement in areas falling under its jurisdiction.

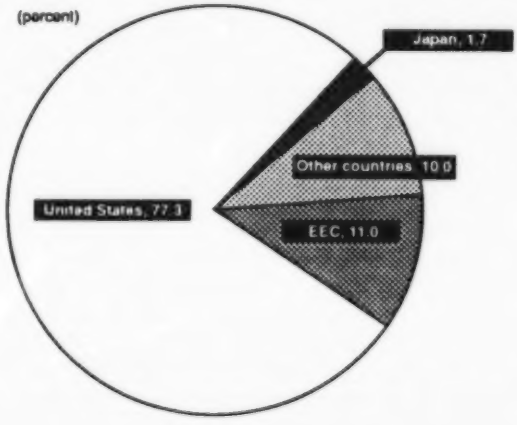
It should be remembered that the discussions which led to the Free Trade Agreement were part of a series of negotiations aimed at liberalizing trade between both countries. These negotiations do not break with tradition, far from it. Indeed, they are the most recent phase in a process of ongoing bilateral and multilateral negotiations, the latter under the aegis of the General Agreement on Tariffs and Trade (GATT), launched more than 50 years ago. Even when these negotiations were multilateral, Canada's discussions over the years with the United States have always been of the utmost importance. The Free Trade Agreement is not the final phase in the liberalization of trade between both countries, as a number of clauses provide for further negotiations on specific matters, e.g. government procurement, subsidies and countervailing and antidumping duties.

Before we examine in greater detail the content of the Agreement, it is worth noting the reasons which led Canada to propose bilateral trade talks with the United States.

At the outset, the dominant position of the U.S. market among Canadian and Québec exporters must be acknowledged. In 1987, the United States purchased 77.3 percent of Québec's international exports, as indicated in Tables 1 and 2.

Table 1

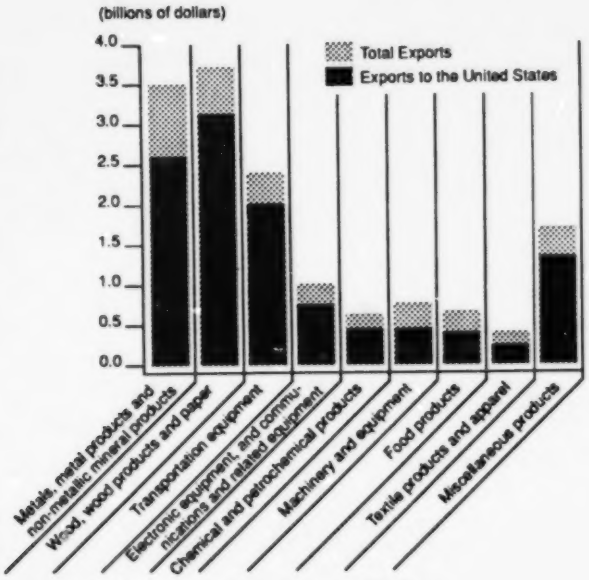
PRINCIPAL DESTINATIONS OF QUÉBEC INTERNATIONAL EXPORTS IN 1987



SOURCE: Ministère du Commerce extérieur et du Développement technologique

Table 2

BREAKDOWN BY GROUP OF PRODUCTS OF QUÉBEC EXPORTS FOR THE FIRST THREE QUARTERS OF 1987

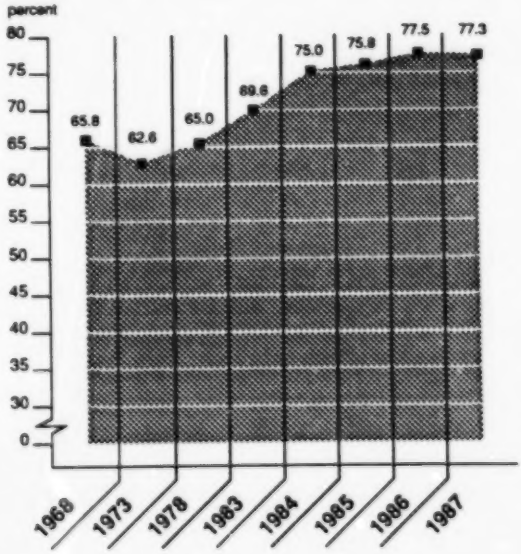


SOURCE: L'évolution trimestrielle des échanges commerciaux du Québec
États-Unis 3e trimestre 1987
Ministère du Commerce extérieur et du Développement technologique

Moreover, the concentration of Québec exports on the U.S. market is not a new phenomenon attributable to recent economic conditions. As Table 3 shows, in every year since 1968 the United States accounted for at least 60 percent of Québec exports. In recent years, this figure has been rising.

Table 3

RELATIVE IMPORTANCE OF QUÉBEC EXPORTS TO THE UNITED STATES COMPARED WITH INTERNATIONAL EXPORTS

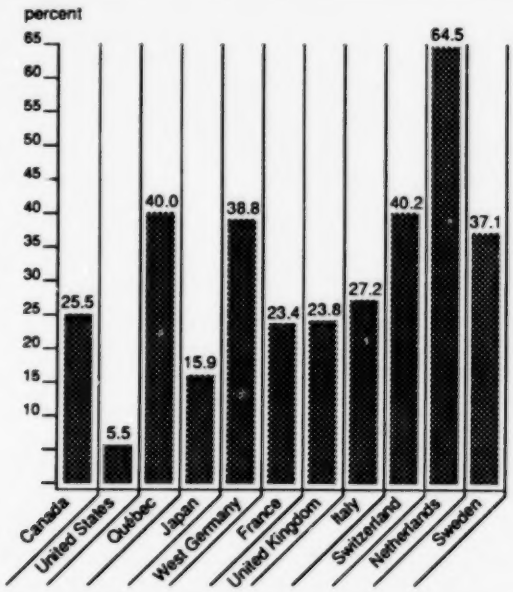


SOURCE: Ministère du Commerce extérieur et du Développement technologique

In 1986, exports of Québec goods were equivalent to 40 percent of our GDP, making Québec one of the most open economies in the world (see Table 4).

Table 4

EXPORTS OF GOODS AS A PERCENTAGE OF GDP, 1986



SOURCE: Data for 1986 from the OECD and the ministère du Commerce extérieur et du Développement technologique

While output and world trade have grown since 1983, problems in adjusting to fluctuating international supply and demand have led a number of countries, in recent years, to redress their balance of payments through protectionist measures. Non-tariff barriers to imports and measures aimed at artificially promoting exports have proliferated in several sectors of the economy, thus offsetting the benefits of lower customs tariffs achieved during multilateral trade negotiations.

We must not overlook other factors which affect trade the world over. Rising protectionism has been accompanied by the erosion of the multilateral world trade framework under the General Agreement on Tariffs and Trade (GATT), because of the complexity of the issues dealt with, the greater number of contracting parties and distortions of the underlying spirit of the GATT. Among other things, the establishment of regional trading blocks, of which Canada is not a part, and more volatile exchange rates must be acknowledged.

The industrial structure of all nations is being reorganized in order to adapt production systems to various innovations, the changing needs of consumers and changes in the relative cost of various factors of production. New industrialized nations have also emerged, which are capturing an increasingly large share of world trade. Developing nations are also experiencing problems, especially with regard to their external debt.

Canada and Québec, whose economic performance is closely tied to world trade, are likely to be penalized by the current wave of protectionism sweeping the world. The threat is especially apparent and widespread in the United States, where the government is dealing with major budgetary problems and an unprecedented trade deficit, which totalled US$171 billion in 1987.

American protectionism is particularly worrisome for Canada, as Canada-U.S. bilateral trade is the most extensive of any two nations in the world. Canadian exports to the U.S. account for roughly 75 percent of total exports.

It is important for Canada and Québec to maintain and increase access to the American and other external markets, as the size of the domestic market is often insufficient to permit optimal use of production facilities. Canada alone among the industrialized nations does not have assured access to a market of at least 100 million consumers.

In September 1985, following consultations with provincial governments and the private sector, the federal government reconfirmed that the multilateral system was the cornerstone of its trade policy. Furthermore, having noted the importance of Canada's trade with the U.S. and the possibility that access to this market might be restricted, Ottawa proposed that both countries launch talks aimed at liberalizing trade between them. This decision was motivated by the protectionist inclinations of Congress, particularly apparent in the proposed Omnibus Trade Bill, and the need to make Canada more competitive on external markets.

During negotiations, Canada and Québec were concerned, first and foremost, with maintaining and increasing access to the U.S. market, to ensure that businesses are able to export to the U.S. without the constant threat of restricted access.

This study reviews the main points of the Free Trade Agreement and analyses them in a Québec perspective, bearing in mind, among other things, the conditions Québec deemed essential to making the Agreement acceptable.

CUSTOMS MATTERS

The customs duties which apply to bilateral trade are the most apparent, constant obstacle to trade between Canada and the United States.

Approximately 80 percent of Canadian exports enter the U.S. duty free, while 65 percent of American exports to Canada are exempt from duties. However, stiff customs tariffs on some products penalize exporters in such sectors as textiles, apparel, shoes, furniture and petrochemical products.

Under the Free Trade Agreement, customs tariffs will be eliminated between January 1, 1989 and January 1, 1998 (see Table 5).

Table 5

SUMMARY OF THE TIMETABLE FOR ELIMINATING CUSTOMS TARIFFS UNDER THE FREE TRADE AGREEMENT

January 1, 1989	**Roughly 15 percent of products will be exempted form tariffs,** e.g. computers, leather, wrought aluminum, furs, whiskey, vending machines and parts, some pork products and some alloys.
Between January 1, 1989 and January 1, 1994	**Roughly 35 percent of products will be exempted from tariffs,** e.g. printed matter, paper, paint, explosives, furniture, hardwood plywood, some chemical products and most machinery and equipement.
Between January 1, 1989 and January 1, 1998	**Roughly 50 percent of products will be exempted from tariffs,** e.g. farm products, textiles, apparel, steel, softwood plywood, railcars, appliances, pleasure craft and tires.

Approximately 15 percent of goods currently subject to tariff protection will be exempted from such tariffs when the Agreement comes into force on January 1, 1989, including computers, some unprocessed fish, leather, yeast, unwrought aluminum, vending machines and parts, some paper-making machinery, some pork products, fur and fur garments, whiskey and some alloys.

Similarly, tariffs will be lifted in five equals yearly instalments on roughly 35 percent of currently dutiable goods, beginning on January 1, 1989. These products include printed matter, paper and paper products, paint, explosives, some chemical products, furniture, hardwood plywood and most machinery and equipment. Tariff barriers on telecommunications equipment will be abolished over three years.

The remaining tariffs (approximately half of the total) will be eliminated in 10 equal annual stages starting on January 1, 1989.

This category includes most farm products, textiles and apparel, steel, softwood plywood, railcars, appliances, pleasure craft, tires and so on.

■ **In this respect, the Agreement reflects the concerns of the Québec government, which also insists that, during the transition period, adjustment programs for businesses and workers be established. These programs are essential to ensure that the effects on the Québec economy of the rationalization process engendered by the signing of the Agreement be as positive as possible. Moreover, in keeping with Québec's wishes, it will be possible at all times to adopt emergency safeguards, under conditions agreed upon by the signatories, to counter possible increases in imports which could be detrimental to domestic output.**

It should also be noted that drawback programs, i.e. rebates on duties for products imported from third countries used to manufacture goods intended for export, will be abolished as of January 1, 1994, in the case of exports to the United States, except with respect to citrus fruits and apparel. The elimination of these programs is the result, among other things, of the lifting of tariff barriers and is aimed at avoiding the diversion of trade by products from third countries. However, Canadian exports to the United States which include inputs and components imported from the United States may benefit from drawbacks of Canadian tariffs paid with regard to such inputs or components as long as customs duties are maintained on trade between both countries.

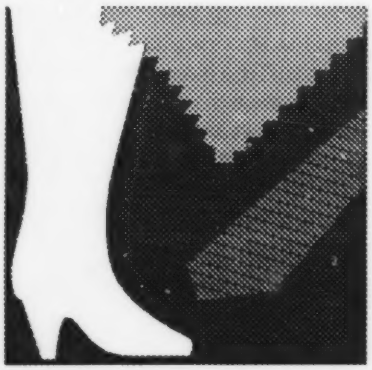
The origin of goods is a key element in any agreement respecting the liberalization of trade between two partners. Because Ottawa and Washington have negotiated a special trade agreement, they must accord preferential treatment to goods which have been produced or sufficiently processed within their respective borders.

Under the Free Trade Agreement, goods exported to either country must satisfy specific criteria in order to be deemed of Canadian or American origin. They must have been entirely produced in Canada or the United States or, if they include imported inputs, they must have been sufficiently processed in either country to reflect a specific change in the tariff classification. Furthermore, in the chemical products, shoe, machinery and equipment, electronic, furniture and automobile sectors, in some instances it will be necessary to prove that the value of materials originating within the territory of either, or both, partners, added to the direct cost of processing incurred in Canada or the United States, does not account for less than 50 percent of the value of the goods exported. Special rules will apply to the textile and clothing industries, as we shall see later.

Rules respecting the origin of goods are designed to avoid putting Canadian or American producers at a disadvantage in relation to foreign competitors. Without such rules, trade could easily be diverted as Canada and the U.S. apply different customs tariffs to third countries.

■ **During free trade negotiations, Québec insisted that clear rules on customs matters be spelled out, to avoid the diversion of trade. We are satisfied with the rules adopted in this respect.**

MATURE INDUSTRIES



Tariff protection with respect to the textile, clothing and shoe industries will gradually be eliminated over a period of 10 years; such protection with regard to the furniture industry will be lifted over five years.

However, in connection with the Free Trade Agreement, Ottawa recently adopted a three-phase tariff-reduction program designed to bolster the competitiveness of the Canadian textile and clothing industries on the domestic market.

The first phase is intended to eliminate or reduce, by January 1989, Canadian tariffs on 13 specialized fabrics which are not manufactured in Canada.

The second phase entails a customs duty rebate program, a provision of which is intended to speed up the reduction of duties on denim contained in the Free Trade Agreement, so that such duties reflect those which will apply to the United States after the first five years of the transition period.

The federal government is contemplating measures to gradually bring Canadian duties on textiles into line with those imposed in other industrialized nations. Under the third phase, initial reductions in duties on textiles will come into force on January 1, 1990.

Before the program is fully implemented, the federal government has, nonetheless, decided to seek the opinion of the new Canadian International Trade Tribunal on the matter. The Tribunal is also responsible for making recommendations on the effects of a more rapid joint withdrawal of duties on textiles than is envisaged under the Canada-U.S. Free Trade Agreement.

In the United States, customs duties will gradually be abolished on exports of traditional products which do not use raw materials or components from a third country. Moreover, exports of such products which use raw materials or components from a third country will also be eligible for area treatment if they have been sufficiently processed in Canada or the United States to reflect a specific change in tariff classification under the Harmonized System of tariff classification. In the shoe sector, in addition to the change in classification, at least 50 percent of direct production costs must have been incurred in either country.

Notwithstanding rules of origin, Canadian exports to the United States of garments manufactured using fabric from third countries and which satisfy other conditions applicable under the Free Trade Agreement will enjoy the preferential treatment accorded therein, on up to 6 million square yards equivalent for woolen apparel, and 50 million square yards equivalent for non-woolen apparel. The corresponding figures for American exports to Canada are 1.1 million and 10.5 million square yards equivalent.

Above these levels, apparel made from offshore fabrics will be subject to the the most favoured-nation tariff, which applies to most third countries. However, drawback on duties paid on such fabrics will apply.

Furthermore, agair notwithstanding rules of origin, exports to the United States of up to 30 million square yards equivalent of fabrics and textile articles woven or knitted in Canada using non-woolen yarn imported from a third country will enjoy preferential treatment under the Agreement. This quota will be maintained until December 31, 1992. It will be reviewed two years after the implementation of the Agreement in order to find a solution satisfactory to both Parties in the future. No corresponding quota covers fabrics exported from the United States to Canada.

■ **The periods of reduction of customs tariffs with respect to mature industries reflect Québec's requests in this regard. However, it would have been preferable to extend beyond five years the period applying to household furniture.**

■ **Quotas established with respect to clothing imports from Canada and Québec are well above current levels of trade. Although Québec clothing exports to the United States are growing rapidly, we feel these levels are acceptable for the time being.**

As is the case for other industries, the transition period, adjustment measures and the possibility of resorting to emergency measures should facilitate the adjustment of mature industries to new competition. The measures recently announced by the federal Minister of Finance should also smooth the transition in the garment industry.

NATIONAL TREATMENT

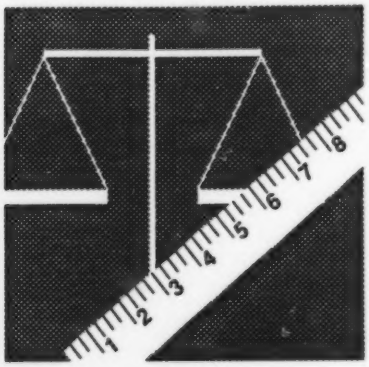
Chapter 5 of the Free Trade Agreement, devoted to national treatment, incorporates the fundamental national treatment obligation of the GATT into the Agreement.

The provinces and states are clearly bound to the national treatment obligation, as defined by the GATT.

■ **In the future, Québec must treat without discrimination goods, services and investments from the United States, according to measures outlined in the Free Trade Agreement. With some exceptions, current Québec legislation and regulations are covered by a grandfather clause.**

■ **This clause in the Agreement satisfies Québec, which will ensure that it is implemented with respect to provisions affecting areas under its jurisdiction.**

TECHNICAL BARRIERS



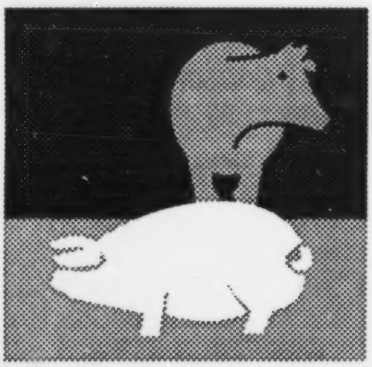
The right to adopt and maintain regulations to protect human, animal and plant life, the environment or for a variety of other similar purposes is a sovereign issue for each country to decide, a principle which the GATT recognizes. However, regulations imposed for these reasons may unnecessarily include provisions which artificially impede trade.

Under the Free Trade Agreement, Canada and the United States have reaffirmed their rights and obligations arising from the Tokyo Round on technical barriers to trade (the "Standard Code"), designed to eliminate unnecessary obstacles to trade created by technical regulations, testing methods and procedures or certification systems.

Provisions in the chapter of the Agreement devoted to standards do not apply to states, provinces and local governments, nor do they cover standards in the farm sector, dealt with in a separate chapter. The Parties to the Agreement must, as far as possible, make compatible and bring into line various standards-related measures and procedures for approving products. The Agreement also provides for reciprocal recognition of certification agencies in both countries.

■ **In this realm, Québec agrees in principle with the harmonization of federal standards, insofar as this measure does not lead to a decline in the quality of products.**

AGRICULTURE



Québec requested that agriculture be accorded special status in the CanadaU.S. Free Trade Agreement, to ensure that farm support programs are maintained, especially income stabilization programs and agricultural marketing boards. In this respect, the Agreement satisfies Québec's demands, although it contains a number of provisions aimed at liberalizing trade in farm products.

Canada and the United States have agreed to abolish all duties on farm products within 10 years. However, over a period of 20 years, and under special circumstances, a conditional return to the most favoured-nation tariff on fresh fruits and vegetables will be allowed.

Moreover, the Agreement maintains the right to resort to the exceptions stipulated under Article XI of the GATT, that is, among other things, the possibility of controlling imports of farm products whose production is subject to quotas in Canada. Such protection is effective as it can apply to all primary farm products and products which have undergone primary or secondary processing, provided production of these goods is controlled.

The United States will exempt from quantitative import restrictions Canadian products containing 10 percent or less sugar by net weight, a concession on the part of the Americans. This measure will make the U.S. market more readily accessible as the price of sugar is lower in Canada. It will create a worthwhile outlet for manufacturers of bakery goods and pastries, who will no longer be subject to the threat of quotas.

Canada has agreed to abolish import licenses for wheat, barley, oats and their products when U.S. grain support levels become equal to Canadian grain support levels, according to a negotiated technical formula. Licenses for oats and barley will likely be eliminated when the Agreement comes into force.

■ **This provision could enhance the competitiveness of Québec growers, and marks a potential gain for hog, cattle, poultry and other producers who can, if need be, obtain grain supplies on the U.S. market. Furthermore, the Canadian government has indicated its intention to abolish in the near future the two-tiered price system for bread wheat, which should enhance the competitiveness of the agri-business sector.**

Both countries have agreed not to impose or re-impose quantitative restrictions on cereal grains or grain products as long as no major changes are made in either country's cereal support programs which have a marked effect on imports from the other Party. This procedure will gradually draw us into line with market forces without restricting the cereal grain trade in the meantime.

Canadian Western Grain Transportation rail subsidies will be eliminated on exports to the United States shipped through Canadian west coast ports. This measure will primarily affect exports of milled canola and canola meal to states on the Pacific northwest coast.

However, Canada has agreed to eliminate subsidies under the Western Grain Transportation Act on products derived from milled soy and soy meal shipped via British Columbia to the United States.

Canadian Western Grain Transportation rail subsidies on shipments to Thunder Bay will apply to all cereal grains transported, whether sold in Canada or abroad. As a result, this clause will not affect the cereal grain market in eastern Canada.

Furthermore, the Free Trade Agreement stipulates that Canada will alter its global import quotas on chicken, turkey, eggs and their products to reflect average levels of actual imports between 1982 and 1986.

Global import quotas expressed as a percentage of domestic output will rise from 6.3 percent to 7.5 percent with respect to chicken, from 2 percent to 3.5 percent for turkey, and from 0.675 percent to 1.647 percent for eggs in the shell. Both countries have also agreed to apply reciprocal exemptions from import restrictions contained in meat import laws in both countries. Canada and the United States have similar legislation respecting beef which enables them to impose quotas when production cycles reach a peak. Canada has only used this right once, in 1985, with regard to boneless beef.

■ **It should be noted that the abolition of restrictions on meat imports will only marginally affect Québec, as the province exports little beef to the U.S. However, this measure has considerable potential for the western provinces, which hope to increase exports to the United States.**

■ **Canadian and American legislation governing meat imports does not apply to pork, Québec's main agricultural export.**

Both countries have also agreed not to use direct export subsidies with regard to farm products exported from either country. Canada and the United States have agreed to take into account each other's export interests when resorting to export subsidies on farm products shipped to third countries.

Canada and the U.S. have agreed to reduce to a minimum technical barriers related to farm products, food and beverages. Regulatory bodies in both countries will collaborate to reduce technical obstacles which hinder trade, while continuing to protect the health of humans, animals and plants.

■ **Québec maintains high standards of salubrity and quality in the realm of protecting livestock and plants, preventing disease and inspecting food and other farm products. For**

this reason, Québec attaches considerable importance to current standards of protection and continued observance of its jurisdiction over the technical regulation of food and other products.

- In this light, it is unlikely that Québec will lower its sanitary, hygiene and quality standards. Many trade-related problems are attributable to external factors such as product labelling, packaging, units of measurement and so on. There is every reason to encourage the highest degree of standardization in this area.

- In response to a demand from Québec and other provinces, farm support programs will not be affected by the Free Trade Agreement. However, they will still be subject to countervailing duties in the United States should it be proven that they are subsidies and that the exports benefiting from these subsidies cause injury to American producers.

- Québec is satisfied with the Agreement, especially with the treatment accorded Canadian supply management programs, federal or provincial income stabilization programs, farm insurance and financing programs and recognition of provincial jurisdiction over agricultural marketing boards. A number of measures in the Agreement will also enable the agribusiness processing sector to remain competitive.

WINE AND DISTILLED SPIRITS

The Free Trade Agreement provides for a reduction of barriers to trade in wine, beverages containing wine, distilled spirits and beverages containing distilled spirits. It does not apply to the sale and distribution of beer.

■ **Québec, like the other provinces, supported the exclusion of beer from negotiations, given the particular nature of the brewing industry in Canada. This demand has been satisfied.**

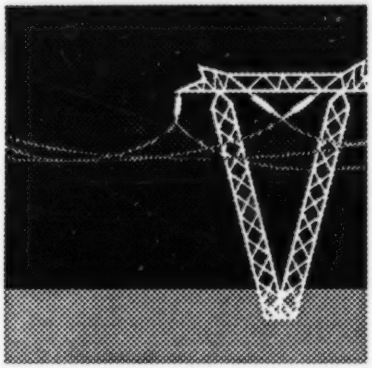
■ **Québec adheres to open, non-discriminatory trade practices with regard to its relations with domestic and foreign suppliers, in terms of the listing of alcoholic beverages available for sale within its borders. The Agreement allows the requirement to bottle in Québec wines destined for sale in grocery stores to be maintained. This marks an important gain for Québec. American producers may continue to offer their products in grocery stores, provided they comply with Québec's requirements.**

■ **Starting in 1989, discrepancies in the markup rates on spirits deemed discriminatory will be abolished. It should be noted that at the beginning of 1988 Québec abolished commercially unjustifiable discrepancies on imported spirits.**

A seven-year transition period (1989-1995) will enable wineries to adapt to new market conditions. Discrepancies in markup rates on local and American products will gradually be reduced. The basic discrepancy will be reduced by 25 percent in 1989 and 1990, and 10 percent in the five subsequent years. Discrepancies in markup rates based on normal commercial factors will be authorized. **The Société des alcools du Québec will be able to demand differential service fees bearing in mind, among other things, transportation, storage and handling costs, which vary from one product to another.**

■ **Overall, the Agreement contains modifications which are acceptable to Québec compared with current practices.**

ENERGY



The Free Trade Agreement provides for freer trade in energy. Existing customs tariffs will be abolished; both countries' commitments under the GATT and the International Energy Program have been reconfirmed. In addition, a number of specific measures are aimed at clarifying current or future regulations governing energy.

Customs tariffs on energy products will be gradually lifted by January 1, 1994. Most of these products already enter Canada duty free; it is mainly American tariffs which will be abolished.

Canada and the United States may not impose minimum export or import price commitments when applying antidumping and countervailing duties. This provision complies with the General Agreement on Tariffs and Trade (GATT). However, because of changing supply and demand, energy prices in Canada may well be lower than those in the United States. Moreoever, taxes or charges on exports are prohibited, unless the same tax is applied to energy consumed domestically.

Both countries have agreed to comply with the GATT in imposing measures to restrict exports when unusual circumstances demand emergency action. Such restrictions may not reduce the proportion of the good exported to the other Party relative to the total supply of the good, compared to the proportion exported prior to the imposition of the restriction. When emergency measures are adopted, export prices may not exceed domestic prices applying to the product. Generally speaking, ordinary sources of supply and normal trade patterns must be maintained. Measures to restrict exports or imports of an energy product may be imposed for purposes of national security, as specifically defined in the Agreement.

In 1974, Canada and the United States reached an agreement under the International Energy Program reached under the aegis of the International Energy Agency. This agreement covers trade and sharing of oil among member nations in case of reduced supplies. Commitments made under the 1974 agreement take precedence over provisions in the Free Trade Agreement.

With respect to provisions on investment, the United States will be accorded national treatment when new businesses are established. Existing rules will not be altered with regard to the oil, natural gas and uranium mining industries.

These industries will also be exempt from provisions in the Agreement concerning the acquisition of Canadian firms and will not be affected by anticipated amendments to the Investment Canada Act. Thresholds at which investments will be reviewed will not be raised and restrictions on prescriptions provided for in the Agreement, such as prescriptions related to local content and the replacement of imports, will not apply in such instances.

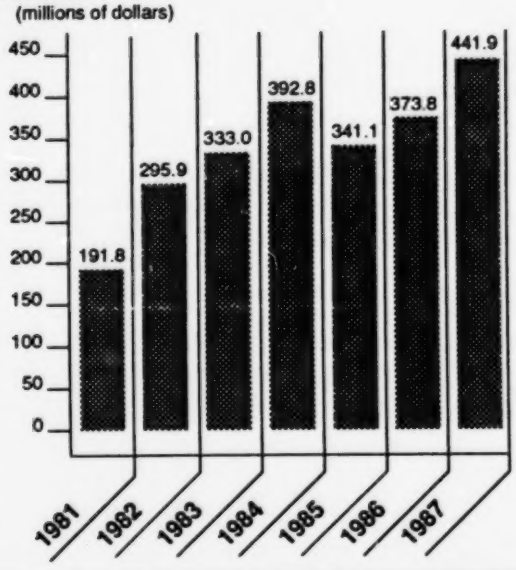
The two countries have also agreed to allow existing or future incentives for oil and gas exploration and development in order to maintain the reserve base for these energy resources.

■ **Guarantees under the Agreement with respect to restrictions on exports and imports should help counteract the efforts of the U.S. Coalition against Canadian Electricity Imports, especially in terms of security of supply. This marks an important gain for Québec.**

As Table 6 shows, Québec electricity sales to the United States are growing appreciably at present.

Table 6

QUÉBEC ELECTRICITY EXPORTS TO THE UNITED STATES SINCE 1981

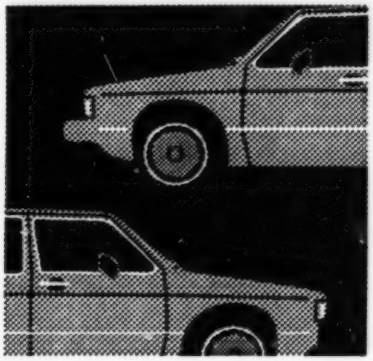


SOURCE: Bureau de la statistique du Québec

■ **The elimination of one of three price tests, i.e. the export price must not be appreciably lower than the least costly option for the American buyer, which the National Energy Board applies to Québec electricity exports, will help relax current regulations governing electricity exports. The federal government has already announced that it hopes to further liberalize regulations respecting electricity exports, as it has done with regard to oil and natural gas, which should make it easier for Québec to export electricity.**

While, in the short term, the Free Trade Agreement does not significantly alter conditions surrounding trade in energy products between Canada and the United States, in the future, it will make the U.S. market more accessible to Canadian products and protect us from reduced access to this market.

TRADE IN AUTOMOTIVE PRODUCTS



The Auto Pact has been maintained under the Canada-U.S. Free Trade Agreement. Free access to the American market for motor vehicles and original equipment parts manufactured by already qualified producers, e.g. GM, Ford, Chrysler, Paccar, Prévost Car and so on, has not been altered, nor has the right of producers to import duty free the same products from anywhere in the world, as long as provisions in the Auto Pact are adhered to. However, in future, the Auto Pact will not apply to other firms.

A new rule of origin stipulating that 50 percent of direct production costs must be incurred in Canada or in the United States has been introduced with respect to trans-border trade. The new rule is more stringent in terms of North American content than previously, as no account may be taken of selling costs and profits, for example.

■ **Under the Free Trade Agreement, Canada may no longer grant duty remissions according to the value added in Canadian automobile production, nor broaden existing arrangements. Agreements negotiated between foreign manufacturers and the Canadian government will stay in force until they expire, but may not be renewed. Hyundai is the only firm operating in Québec affected by this part of the Agreement.**

Custom duty remissions on parts purchased in Canada by foreign manufacturers for export to the United States will be lifted once the Agreement comes into force on January 1, 1989. Remissions on dutiable parts exported to other countries will be eliminated in 1998.

Moreover, the Agreement provides for the gradual elimination of customs duties on new vehicles, factory-installed components and tires over a period of 10 years. Tariffs on spare parts will be abolished over five years.

Canada and the United States also plan to set up a blue-ribbon committee to evaluate the North American automobile industry and propose policies aimed at enhancing competition on domestic and foreign markets, a major challenge for North American industry.

EMERGENCY SAFEGUARDS

Both countries have agreed upon a two-tiered system designed to remedy the serious injury caused by fair imports.

When such injury results from a wave of imports in the wake of the elimination or the reduction of customs duties stipulated in the Agreement during the transition period, bilateral discussions will be held.

Broader talks will be used to remedy serious injury caused by disorderly growth in imports. In this case, provisions under the General Agreement on Tariffs and Trade (GATT) will be maintained during and after the transition period.

The emergency action provided for under the first phase includes suspending the reduction in customs duties and, if need be, increasing it to the lesser of the following rates: the most favoured-nation rate, the rate prevailing prior to the Agreement or, in the case of duties applied to a product on a seasonal basis, the most favoured-nation rate in effect during the season which immediately preceded the coming into force of the Agreement. Measures will apply for three years and may not be applied more than once to a particular product, nor may they be applied beyond the transition period, unless by mutual consent.

Emergency measures under the second phase are the same as those found in Article XIX of the GATT. However, both Parties will be mutually exempt from emergency action unless one Party's exports are substantial and a source of injury to the other. The measures to be taken may not reduce imports below the trend line of previous bilateral trade, with allowance for growth.

A country wishing to adopt emergency measures must notify and consult the other country before doing so. The Agreement contains provisions respecting mutually agreed upon compensation. Disputes arising from emergency measures will be referred to the Ministerial Commission (see "Institutional Provisions"). If a solution is not found within 30 days, the Commission must submit the dispute to compulsory arbitration.

■ **During negotiations, the Québec government insisted that the Agreement make provision for emergency safeguards during and after the transition period. Such a measure is especially important to ensure that adjustment occurs in an efficient manner, without major upheavals. The emergency safeguards in the Agreement will protect Canada and the United States from unforeseen, adverse developments.**

GOVERNMENT PROCUREMENT

Since January 1, 1981, purchases by some federal departments of goods valued at more than $213 000 have been open to firms in countries which signed the GATT Agreement on government procurement during the Tokyo Round.

Under the Canada-U.S. Free Trade Agreement, the agencies involved and the code respecting transparency are similar to those in the GATT Agreement. The main modification concerns the minimum value of procurement, which will be US$25 000 (approximately C$33 000).

■ **This change will increase by roughly $400 million government procurement on which American firms may bid in Canada, and by $3 billion procurement on which Canadian companies may bid in the United States.**

■ **As a result of the reduction in the applicable GATT threshold, American markets open to Canadian firms will increase from US$18.7 billion to slightly more than US$21 billion. Markets in Canada accessible to American businesses will increase from US$500 to more than US$800 million. Québec companies, especially small and medium-sized firms, should benefit from broader access to U.S. government procurement. The same applies to American companies, which will enjoy broader access to procurement in some federal government departments.**

It should be noted that the scope of the GATT Agreement is fairly limited. Government purchases related to the generation and transmission of energy, mass transit or telecommunications are excluded.

The scope of the Agreement is limited in relation to Canada's objective of obtaining an agreement covering federal, state, provincial and municipal government civilian and defence procurement. However, the Agreement does explicitly provide for new negotiations on government procurement following multilateral trade negotiations.

■ **Purchases by the Québec public and parapublic sectors, including Hydro-Québec, are not affected by the agreement on government procurement reached with the United States.**

SERVICES

The Agreement on services includes a general services code and sectoral agreements, centred on the principle of national treatment, but applying only to future legislation and regulations. Current provisions which do not comply with this principle may be maintained.

The scope of the code is enormous. Most commercial services are covered, except transportation, basic telecommunications (telephones, for example), services provided by doctors, dentists and lawyers, child care and government services (health, education and social services).

In three sectors, Canada and the United States have subscribed to obligations which are more detailed than those found in the general services code, i.e. architecture, tourism, and enhanced telecommunications and computer services. The Parties were unable to reach agreement on transportation services, contrary to what was announced in portions of the summary Agreement made public on October 5, 1987.

■ **Inclusion in the Agreement of transportation services could have benefited a number of Québec firms, especially in the maritime and road transportation sectors, although competition could have been stiffer in road transportation.**

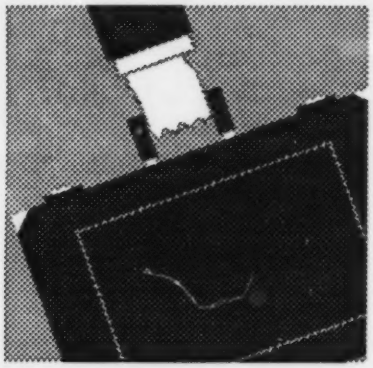
In the field of architecture, the objective is to achieve mutual recognition of standards and requirements governing the authorization to exercise the profession and supply architectural services.

Canada and the United States also wish to facilitate trade in tourist services between both countries, which has already been liberalized. The goal is to better structure current collaboration in this respect.

Both countries have agreed to guarantee, on a non-discriminatory basis, access by suppliers of enhanced telecommunication and computer services to each other's basic telecommunications network. The Agreement also stipulates that both countries may negotiate other sectoral agreements covering services.

■ **The agreement on services is compatible with Québec's position. Future legislation in Québec governing the services in question will have to adhere to the principle of national treatment.**

BUSINESS TRAVEL



In the chapter of the Agreement entitled "Temporary Entry for Business Persons", Canada and the United States will relax restrictions on the mobility of business people travelling from one country to the other. The new system should come into effect on January 1, 1989.

Various delays and difficulies in U.S. immigration for Canadians travelling to the U.S. for business purposes were becoming an increasingly vexing problem in international trade. Little has been said about this provision in the Agreement, but it is undoubtedly the provision which will most immediately affect firms whose employees must travel to the United States on business.

To take advantage of provisions in the Agreement on temporary entry in the United States, Canadian business travellers must meet normal health and safety requirements and indicate the nature of their business, i.e. whether entering as a Business Visitor, as a Professional, as a Trader or Investor, or as an Intra-Company Transferee.

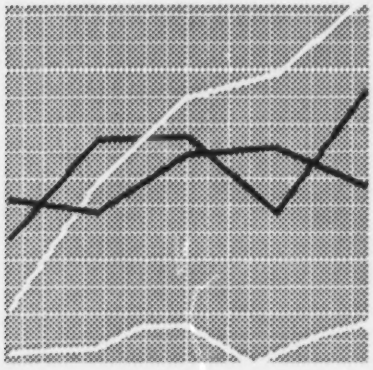
A Professional must be on the list of 47 professions set out in Schedule 2 of the Annex. A Business Visitor must also state the specific purpose of the visit, according to seven general types of activities:

- Research and Design;
- Growth, Manufacture and Production;
- Marketing;
- Sales;
- Distribution;
- After Sales Service;
- General Services.

■ **Measures in the Agreement related to business travel between Canada and the United States are a significant step forward, from which Québec manufacturers and service firms will undoubtedly benefit.**

■ **This chapter must be implemented in accordance with provisions in the February 20, 1978 Cullen-Couture Agreement on Immigration.**

INVESTMENT



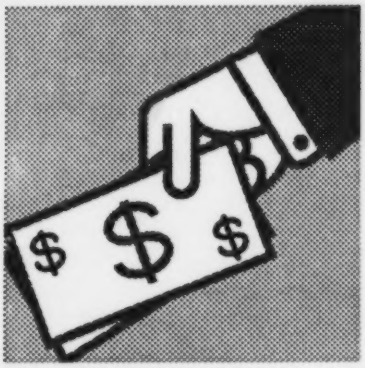
Canada and the United States have agreed to accord national treatment to each country's investors in the future. Existing practices which do not comply with provisions in the Agreement will be grandfathered. Moreover, both countries have abandoned investment measures related to trade, for example, local content of production, export performance requirements and so on. However, measures covering product mandates, research and development and technology transfers, in particular, are not affected.

By January 1, 1992, Canada will gradually abolish reviews of indirect acquisitions of Canadian businesses by American investors and will gradually raise to $150 million the threshold at which the direct acquisition by an American investor of a Canadian firm triggers a review. The cultural industries, transportation and financial services are excluded from provisions in the agreement related to investment.

■ **The Agreement reflects the position of the Québec government, which hoped that negotiations would create a more stable, open and liberal climate to encourage investment. The exclusion of the cultural industries from the chapter on investment reflects one of Québec's demands. The oil, gas, uranium and transportation sectors have also been exempted from amendments to the Investment Canada Act.**

■ **To ensure its economic development, Québec wishes, among other things, to attract foreign investment. To take full advantage of reduced obstacles to trade in goods and services, a sound investment climate is essential. More liberal investment policies should be beneficial to the Québec economy. Québec firms operating in the United States or which intend to invest there will also benefit from the guarantee of national treatment in the Agreement.**

FINANCIAL SERVICES



The liberalization of trade in financial services reflects the internationalization of financial markets.

The Agreement on financial services broadens access by Canadian and American financial institutions to markets in the other country. It represents a declaration of intent on the part of both countries to continue liberalizing their respective financial markets and enable the other country to enjoy the benefits of this liberalization. Canada has obtained a guarantee that, should the United State amend its legislation, Canadian financial institutions will obtain national treatment in the United States, which could represent a significant gain for Canadian businesses in the future.

Moreover, the United States will allow Canadian banks operating in the United States to underwrite and deal in securities of Canadian governments and their agents.

Canada has promised not to impose on Americans restrictions limiting foreign ownership of financial institutions under Canadian control. This provision will not apply to financial institutions incorporated under provincial legislation.

Furthermore, Canada will exempt Canadian subsidiaries of American banks from restrictions on the overall domestic assets of subsidiaries of foreign banks in Canada. It has also agreed not to exercise powers of review governing the admission of financial institutions under American control in a manner which is not compatible with the Agreement.

Canada and the United States will make public any legislation or proposed regulations respecting financial services and each country will give the other the opportunity to comment on them.

Financial institutions, other than insurance (included in the chapter on services), are not covered by the dispute settlement procedures of the Agreement. Rather, both Parties have agreed to consult, and these consultations will take place between the Canadian Department of Finance and the United States Department of the Treasury.

■ **Québec indicated that it was, in principle, in favour of liberalizing trade in financial services. However, the Agreement only covers measures adopted by the federal government. The Free Trade Agreement does not call into question the proposed reform of financial institutions announced recently by the Québec government.**

■ **Provisions in current legislation and the proposed reform of legislation governing Québec financial institutions include several liberalization measures related to financial institutions belonging to non-residents.**

- **Under the Québec Securities Act, non-residents already have complete access to Québec markets. Proposed amendments to the Act respecting trust companies and savings companies, should they be adopted, will allow the incorporation of institutions belonging to foreigners. The same applies to legislation respecting insurance companies, which could be amended in the near future.**

- **Overtures made by the federal government to facilitate the establishment and development of American banks in Canada will undoubtedly have repercussions in terms of competition on Québec financial markets. However, it is hard to accurately gauge the scope of such competition at this time, although it could benefit consumers.**

- **In the short term, the Agreement does not appear to favour Canadian financial institutions operating in the United States. Overall, negotiators appear to have accepted the principle that the American market is already open and that Canada is simply following its lead.**

- **In practice, most obstacles encountered by Canadian institutions in the United States arise from state legislation, usually more restrictive that legislation in the provinces and more frequently accompanied by invisible constraints. Americans who benefit from liberalization measures adopted by the Canadian government will have access to a completely open Canadian market; the same does not apply to Canadian institutions in the United States, for the time being. However, it is true that Québec financial institutions do not currently operate extensively in the United States; these measures are not likely to foster development in this respect.**

INSTITUTIONAL PROVISIONS

Institutional provisions apply to the joint management of the Agreement and are designed to avoid and settle any disputes between the Parties respecting the interpretation or application of any element of the Agreement, except for financial services, antidumping and countervailing duties, which are dealt with separately.

The Parties will establish a Canada-United States Trade Commission at the ministerial level, primarily responsible for managing the Agreement, overseeing its implementation, settling disputes related to interpretation and application of the Agreement, monitoring its development and dealing with any other question which may affect its operation. All decisions will be made by consensus. The Commission may also set up special or permanent committees or task forces and delegate responsibilities to such bodies.

Each Party promises to notify the other Party of any measure it adopts or contemplates adopting and whose adoption it feels could appreciably affect the operation of the Agreement. Written notice will be given as far in advance as possible of the implementation of such measures. At the request of the other Party, each Party will provide information or clarifications on any measures adopted or contemplated.

The Agreement is aimed, first and foremost, at avoiding disputes. Aside from notification, it provides for consultation, at the request of either Party, on any question related to the Agreement, mediation and, if necessary, arbitration, as a last resort.

■ **The institutional provisions in the Agreement essentially reflect Québec's position. The Québec government called for the establishment of a bipartite commission at the ministerial level to manage the Agreement, with particular emphasis on consultation and mediation. Québec felt that unilateral recourse to binding arbitration should be limited to strictly trade-related questions, which is the case with respect to antidumping and countervailing duties, and emergency action. However, the Agreement also provides for possible recourse to binding arbitration under other circumstances, but only when both Parties agree to it.**

■ **Québec has always demanded the establishment of a permanent federalprovincial committee to ensure that provincial rights are respected in the management of the Agreement and the settlement of disputes. Québec feels that the appropriate procedures must be found to permit sufficient provincial participation on the Canadian side in the settlement of disputes when provincial jurisdiction or one of Québec's major economic interests are at stake. This question has yet to be settled with federal authorities.**

COUNTERVAILING AND ANTIDUMPING DUTIES

Countervailing and antidumping duties are exceptional protective measures which enable national governments to protect their producers from unfair competition from imports when such imports are subsidized or sold at a lower price than in the country of origin. Under the GATT, Canada and the United States are now entitled to impose such measures when the imports in question cause material injury to their producers.

Discussions on exceptional protective measures, including procedures for settling disputes between Canada and the United States were, for Canada, the focal point of this negotiation. To fully appreciate the importance of this question, it should be remembered that the main objective mentioned by the Prime Minister of Canada when he proposed launching bilateral trade negotiations was to obtain assured access to the U.S. market. The protectionist measures (or threats thereof) which justified this objective still persist.

Under the Free Trade Agreement, recourse provided for in domestic legislation respecting antidumping and countervailing duties will remain in effect. However, at the request of one Party, it will be possible to resort to a special bilateral panel to review the final decisions of domestic administering authorities, if one Party feels it has been unfairly treated. The decisions of the panel will be binding.

■ **This measure represents a significant step forward for Canada in ensuring the objectivity of administrative decisions. It should, however, be noted that the bilateral panel's decision must take into account domestic jurisprudence and practices in both countries. The United States has never consented in the past to a review of the application of American legislation by a supranational tribunal.**

The possibility of establishing such a panel to review decisions concerning countervailing and antidumping duties suggests that legislation and statutes could be interpreted more objectively and that the number of abusive complaints might drop.

Such a panel could, for example, have achieved a different solution in the lumber dispute. In 1983, the request from American companies for countervailing duties was rejected. In 1986, it was accepted, although neither American legislation nor prevailing conditions in Canada had changed since then. Such situations could be avoided in the future if they are reviewed by an impartial bilateral body.

In the unlikely event that a panelist has a conflict of interest or there has been a serious miscarriage of justice, either government can invoke an extraordinary challenge procedure involving a panel of three former judges who will determine whether or not the allegations

are valid and whether or not a new panel will be required to review the issues.

Canada's objective of obtaining a system whereby common rules are mutually agreed upon and applied jointly could be achieved later, between five and seven years after the Agreement comes into force, provided the panel to be established in this respect successfully completes its work.

It should also be stressed that Canada must be expressly named in any future amendments to American legislation concerning countervailing and antidumping duties if the U.S. wishes to subject Canada to such amendments. In that case, the changes must comply with the GATT and the GATT Antidumping and Subsidies Codes. The same is true of the United States in the event Canadian legislation is amended.

THE CULTURAL INDUSTRIES

Cultural industries, as defined in the Agreement, will be exempt from its provisions; they are also excluded from provisions governing investment.

Industries engaged in any of the following activities will be exempted:

(a) the pblication, distribution or sale of books, magazines, periodicals or newspapers in printed or machine-readable form, excluding the printing or typesetting of these publications;

(b) the production, distribution, sale or presentation of films or video recordings;

(c) the production, distribution, sale or presentation of audio or video music recordings;

(d) the publication, distribution or sale of musical compositions in printed or machine-readable form;

(e) radiocommunications, such as broadcasts intended for the general public and including radio and television broadcasting, cable transmission, and all satellite programming and distribution services.

Moreover, the Free Trade Agreement specifies:

(a) the elimination of tariffs on any inputs to, and products of, the cultural industries, such as musical instruments, cassettes, film, recording tape, records and cameras;

(b) any requirement to sell a foreign-owned enterprise engaged in a cultural activity acquired indirectly through the purchase of its parent will be balanced by an offer by the federal government to purchase the enterprise at fair open market value;

(c) both Parties will provide copyright protection to owners of programs broadcast by distant stations and re-transmitted by cable companies; this undertaking will be on a non-discriminatory basis; after the new Canadian copyright legislation is implemented there will be an opportunity for further review of outstanding issues in both countries;

(d) the requirement that a magazine or newspaper must be printed in Canada in order for advertisers to be able to deduct their expenses for advertising space in that magazine will be eliminated.

■ **Québec insisted that the cultural industries be excluded from the Free Trade Agreement. The agreement reflects the position of Québec and Canada in this respect. However, the Parties have reserved the right to take retaliatory measures in response to measures which would affect existing commercial rights in these industries.**

■ **Québec also hoped that provisions in the Agreement would deal with intellectual property, including copyright. However, no agreement was reached on this matter.**

STANDSTILL

The October 3, 1987 draft Agreement contained a "Standstill" clause which was not included in the actual Agreement, but was the subject of an exchange of letters between the American and Canadian governments on January 2, 1988.

Both governments recognize through this exchange of letters that the Agreement is subject to their reciprocal approval procedures, including the need to exercise caution until the Agreement comes into force, to avoid jeopardizing the adoption process and acting contrary to the spirit of the Agreement.

It should be noted that under conventional rules of international law, between the signing and coming into force of a treaty, neither Party may act in a way which would cancel obligations inherent in the treaty. However, the current commitment to the status quo is only binding on the U.S. government; it is Congress which will approve or reject the Agreement.

■ **Canada and Québec deem the exchange of letters at the time the Agreement was signed to be of paramount importance, especially because of uncertainty surrounding the proposed Omnibus Trade Bill in the United States.**

QUÉBEC'S PRIORITIES

From the outset of Canado-American free trade negotiations in the spring of 1986, the Québec government clearly identified its fundamental objective with regard to the negogiations,

> **i.e. to reach a mutually advantageous trade agreement which contributes significantly to achieving its economic development objectives, particularly with respect to job creation, enhanced competitiveness among Québec firms and increased investment, an essential source of long-term growth.**

Québec also indicated under what conditions it would support negotiations and the Agreement. First, Québec obviously demanded that legislative and constitutional powers continue to be shared as they are at present. Among other things, it was necessary to apply normal constitutional rules governing the implementation of international treaties. To this end, Parliament and the provincial legislatures should legislate individually to put into effect obligations arising from the Agreement which fall under their respective jurisdiction.

Québec also demanded that all legislation, programs and policies be maintained which, in the social sphere and the realm of communications, language and culture, contribute to the distinct character of Québec society. This demand reflected conditions spelled out in the Canadian plan, which were complied with in the Agreement.

The Québec government also wanted to maintain the leeway necessary to develop and modernize its economy, with particular emphasis on small and medium-sized businesses, whose size or geographical remoteness may put them at a disadvantage. This room to manoeuvre has been fully preserved, as the Agreement does not place any constraints on the power of governments to establish industrial or regional development programs. However, it should be stressed that the means which will be employed to achieve this end may, as is now the case, expose the companies concerned to American countervailing measures if the assistance programs cause injury to American producers because of increased exports. The same holds true for Canadian measures and producers.

While a number of liberalization measures have been agreed upon in the agriculture sector, this sector has benefited from special treatment, as it has during past negotiations. Québec successfully insisted that the agriculture sector's special status be maintained. The main components of agricultural support systems will be preserved. Some of the most acute problems affecting trade in farm products clearly fall outside the scope of Canada-U.S. trade; consequently, they are the focus of multilateral negotiations in Geneva under the Uruguay Round.

The Québec government has concluded that the Free Trade Agreement should signficantly help Québec achieve its economic development objectives. The government feels that the agreement is advantageous and worthy of its support. The findings of independent studies which have been made public tend to confirm that the Québec economy has much to gain from the agreement. While it is apparent that economic impact and forecasting models do have limitations in terms of assessing the consequences of the Agreement or economic change, they nonetheless clearly point the way to future trends.

In this respect, all serious macro-economic studies predict noteworthy potential gains arising from the liberalization of trade with the United States. The Economic Council of Canada forecasts that 250 000 jobs will be created in Canada by 1998, including 58 000 in Québec. Canada's real gross domestic product could increase by 2.5 percent by 1998; investment should rise by 5 percent over the same period. Canadian and Québec consumers should also benefit from the Agreement, as the consumer price index is expected to drop by 5.5 percent by 1998.

A number of important issues have yet to be settled by the Québec and federal governments.

Although they are not part of the Free Trade Agreement, three questions related to Canada's domestic policies are as important as the actual clauses of the Agreement.

The first concerns Québec's demand that adjustment programs be established for the workers and businesses which may bear the brunt of adjusting to the new trade scheme. The second centres on participation by the provinces in managing the Agreement and settling disputes. This is an important matter of principle, although issues falling under provincial jurisdiction affected by the Agreement are not nearly as numerous as was originally thought. The third question concerns the implementation of the Agreement.

ADJUSTMENT MEASURES

One of the Québec government's priorities in the coming months will be to reach an agreement with the federal government on adequate adjustment programs for businesses and workers who will be affected by the reduction in or elimination of trade barriers between Canada and the United States. This adjustment will demand concrete gestures by businesses and governments to deal with increased competition resulting from the gradual lifting of trade barriers. It also implies that steps will be taken to maximize the potential benefits arising from new business opportunities.

The Free Trade Agreement does not explicitly refer to adjustment measures, which reflects established practices with respect to international trade agreements. This question is usually deemed to be a domestic policy issue in the countries concerned.

■ **The Québec government has supported the Agreement provided, among other things, that assistance programs are established during the transition period, and aimed at workers and businesses in vulnerable sectors. Québec has already repeatedly expressed its viewpoint on this matter to the federal government.**

While it is true that businesses mainly adapt to change through the market itself, the governments of Canada and, indeed, of the United States, have not in the past adopted a policy of abruptly changing the rules of the game and leaving workers and businesses to fend for themselves.

It is for this reason, in particular, that the Agreement makes provision for a transition period to enable most sectors to adapt to new conditions. Some industries will, nonetheless, require specific assistance, through existing programs, or new programs designed to see companies and individuals through the transition period.

The Agreement does not prohibit federal and provincial government intervention with respect to regional development and business assistance programs. However, exports made by companies benefiting from subsidies will always be vulnerable to U.S. countervailing duties if they cause injury to American producers.

■ **Although the transition period is long and macro-economic studies generally forecast net gains in employment, adjustment problems may arise in in some businesses and among some workers. For this reason, Québec insists that the appropriate adjustment measures be adopted.**

Discussions are continuing between Ottawa, the provinces and the private sector with a view to establishing procedures which will satisfy the needs of workers and businesses when the Agreement comes into force. Such procedures will focus on existing programs, and new programs should they prove necessary.

■ **The federal government, which is responsible for the Agreement, should bear most of the cost of adjustment programs during the transition period. It recently established an adjustment Advisory Board (the de Grandpré Committee) to consult the private sector on the most appropriate ways of facilitating adaptation to the new trade environment once the Agreement comes into force.**

Following the signing of the Agreement, the Québec government set up an interdepartmental committee on adjustment measures (see Appendix 4), to examine the best ways to maximize the benefits and attenuate the negative effects of trade liberalization between Canada and the United States. Under the chairmanship of the Associate Secretary General, Economic Development in the ministère du Conseil exécutif, the committee includes civil servants from the ministères du Commerce extérieur et du Développement technologique, des Affaires culturelles, de

l'Industrie et du Commerce, de la Main-d'oeuvre et de la Sécurité du revenu, du Travail, de l'Agriculture, des Pêcheries et de l'Alimentation, de l'Énergie et des Ressources, des Finances, de l'Office de planification et de développement, du secrétariat aux Affaires intergouvernementales canadiennes, and the Office des professions.

Within each government department concerned, a committee will analyse existing programs in light of the new content. Moreover, the committee will consult concerned parties and, by the end of 1988, propose changes in current programs, or new technical or financial support programs.

Once these committees have completed their deliberations, the Québec government will be in a position to negotiate with the federal government with regard to needs and the sharing of responsibility for adjustment programs.

MANAGEMENT OF THE AGREEMENT AND DISPUTE SETTLEMENT

Québec has always demanded the adoption of the appropriate measures to ensure adequate provincial participation in managing the Agreement and settling disputes, particularly when matters of provincial jurisdiction or major economic interests are at stake.

■ **Québec feels that it is essential for the federal government and the provinces to cooperate in managing and implementing the Free Trade Agreement. It is a question of pursuing the effective working relationship which was established prior to and during negotiations with the United States. To this end, the Québec government advocates the establishment of a permanent federal-provincial committee.**

IMPLEMENTATION OF THE AGREEMENT

Although President Reagan and Prime Minister Mulroney signed the Agreement on January 2, 1988, a major step has yet to be completed before it is implemented. The Agreement must be ratified and the appropriate legislation must be adopted by Congress, Parliament and the provinces in their respective areas of jurisdiction.

Québec is prepared to amend some of its legislation to facilitate the implementation of the Agreement in areas under its jurisdiction. At present, the Québec government is identifying legislation and regulations which will have to be amended before the Agreement comes into force, and legislation and regulations which may be affected later.

CONCLUSION

Overall, Québec is satisfied with the Canada-U.S. Free Trade Agreement. Both countries will benefit from the Agreement and, in a number of areas, will set an example for other countries, especially with respect to ongoing multilateral trade talks. Both countries have innovated in terms of settling disputes. Including services in such an agreement is a trail-blazing gesture and clears the way for similar multilateral agreements.

The Agreement signed on January 2, 1988 appears to reflect international commitments made by Canada and the United States. The Agreement does not engender significant new obstacles to trade with third countries, but liberalizes bilateral trade in accordance with the requirements of the GATT governing the creation of free trade areas. Moreover, the Agreement establishes a framework for overseeing trade which is indicative of the extent and the complexity of trade between Canada and the United States.

The Québec government's support for the Agreement is not based solely on compliance with the conditions it initially deemed essential. The Agreement also generally satisfies the expectations of the vast majority of Québec organizations which apprised the government of their viewpoint during negotiations, and following the signing of the Agreement.

Although the Agreement is not always as far-reaching as we had hoped, it unquestionably represents a step in the right direction.

LIST OF APPENDICES

Appendix 1

List of federal and Québec government information documents on the CanadaU.S. Free Trade Agreement

Appendix 2

List of organizations or persons who appeared in September 1987 before the Québec Parliamentary Commission on the economy and liberalization of trade between Canada and the United States

Appendix 3

List of organizations which expressed their opinions before the Québec advisory committee on international trade negotiations

Appendix 4

Resource persons from Québec government departments responsible for adjustment to the Canada-U.S. Free Trade Agreement

APPENDIX 1

List of federal and Québec government information documents on the Canada U.S. Free Trade Agreement

Federal government documents

- The Canada-U.S. Free Trade Agreement
- The Canada-U.S. Free Trade Agreement – Canadian Tariff Schedule
- The Canada-U.S. Free Trade Agreement – U.S. Tariff Schedule
- The Canada-U.S. Free Trade Agreement – Synopsis
- The Canada-U.S. Free Trade Agreement – An Economic Assessment
- The Canada-U.S. Free Trade Agreement and Agriculture
- The Canada-U.S. Free Trade Agreement and Energy
- The Canada-U.S. Free Trade Agreement and Fisheries
- The Canada-U.S. Free Trade Agreement and Canadian Consumers
- The Canada-U.S. Free Trade Agreement and Women
- The Canada-U.S. Free Trade Agreement and Forest Products Sector
- The Canada-U.S. Free Trade Agreement in Brief, second edition, January 1988 (Trade: Securing Canada's Future)
- Brochures on regional impact:
  Québec
  Atlantic
  Prairies
  Ontario
  British Columbia
  Northwest and Yukon Territories
- Thematic or sectoral brochures:
  Agriculture
  Forest Products
  The Automotive Industry
  Energy
  Tariffs
  Investment
  How it Benefits Canadian Women
  Consumer Interests
  Solving Disputes
  Culture
  Fishing Industry

To obtain copies of these documents, please call 1-800-267-8527 or write to:

International Trade Communications
Department of External Affairs
Lester B. Pearson Building
125 Sussex Drive
Ottawa, Ontario
K1A 0G2

Québec government documents

- *The Canada-U.S. Trade Negotiations: A Québec Perspective,* April 1987
- *Document synthèse de la position québécoise sur la libéralisation des échanges avec les États-Unis,* September 1987
- *Étude d'impact de la libéralisation des échanges: analyse statistique,* ministère de l'Industrie et du Commerce, September 1987
- *Rapport du comité consultatif sur la libéralisation des échanges,* September 1987
- *The Canada-U.S. Free Trade Agreement: A Québec Viewpoint,* June 1988.

Copies of these documents can be obtained from:

Direction des communications
Ministère du Commerce extérieur et du Développement technologique
770, rue Sherbrooke ouest
Montréal (Québec)
H3A 1G1
Telephone: (514) 499-2171

APPENDIX 2

List of organizations or persons who appeared in September 1987 before the Québec Parliamentary Commission on the economy and liberalization of trade between Canada and the United States

- Association canadienne des compagnies d'assurance de personnes
- Association des assureurs-vie du Québec
- Association des brasseurs du Québec
- Association des constructeurs de routes et grands travaux du Québec
- Association des éditeurs canadiens
- Association des fabricants de meubles du Québec
- Association des manufacturiers canadiens
- Association des manufacturiers de bois de sciage
- Association des mines de métaux du Québec inc.
- Association des propriétaires d'autobus du Québec
- Association du camionnage du Québec
- Association du disque et de l'industrie du spectacle québécois (ADISQ)
- Association professionnelle des meuniers du Québec
- Jean Blouin
- Celliers du monde
- Centrale des syndicats démocratiques
- Chambre de commerce de Montréal
- Chambre de commerce du Québec
- Coalition québécoise d'opposition au libre-échange
- Coalition solidarité populaire du Québec
- Comité consultatif des associations de consommateurs du Québec
- Comité des jeunes du parti québécois
- Conseil conjoint 91 des Teamsters du Québec
- Conseil de la coopération laitière et Fédération des producteurs de lait du Québec
- Conseil d'intervention pour l'accès des femmes au travail du Québec inc.
- Conseil du patronat du Québec
- Coopérative fédérée du Québec
- Gabriel Fontaine, député fédéral du Comté de Lévis
- Institut canadien des textiles
- Institut québécois du cinéma
- Jeune chambre économique et du commerce de l'Estrie
- Jean Lambert
- Bernard Landry
- Mouvement Québec Français
- Nouveau parti démocratique
- Ordre des agronomes du Québec
- Jacques Parizeau
- Parti communiste du Québec

- Parti indépendantiste
- Parti québécois du Bas Saint-Laurent, de la Gaspésie et des Iles-de-la-Madeleine
- Pierre S. Pettigrew
- Pierre-Paul Proulx
- André Raynauld
- Regroupement avicole du Québec
- Société d'électrolyse et de chimie Alcan ltée
- Société nationale des Québécois de Lanaudière
- Syndicat des producteurs de bois du Bas-Saint-Laurent
- Trans-Impex
- Rodrique Tremblay
- Daniel Turp
- Union des écrivains québécois
- Union des producteurs agricoles
- Jack H. Warren

APPENDIX 3

List of organizations which expressed their opinions before the Québec advisory committee on international trade negotiations

- Alcan Aluminium ltée
- Association canadienne de l'emballage
- Association canadienne de l'industrie du bois
- Association canadienne des compagnies d'assurance de personnes
- Association canadienne des producteurs de pâtes et papier
- Association des brasseurs du Québec
- Association des directeurs de recherche industrielle du Québec (ADRIQ)
- Association des fabricants de cidre du Québec inc.
- Association des fabricants et distributeurs de l'industrie de la cuisine du Québec
- Association des fabricants de matériel agricole du Québec
- Association des fabricants de meubles du Québec inc.
- Association des industries forestières
- Association des ingénieurs-conseils du Québec
- Association des jardiniers-maraîchers de la région de Montréal
- Association des manufacturiers de bois de sciage
- Association des manufacturiers canadiens (section du Québec)
- Association des manufacturiers de chaussures du Canada
- Association des manufacturiers d'équipements électriques et électroniques du Canada
- Association des mines de métaux
- Association des propriétaires d'autobus du Québec
- Association des viticulteurs du Québec
- Association du camionnage du Québec inc.
- Association nationale des industries du bois de sciage
- Association professionnelle des meuniers du Québec
- Association provinciale des assureurs-vie du Québec
- Association québécoise des techniques de l'eau
- Banque de Montréal
- Banque nationale du Canada
- Chambre de commerce du Québec
- Coalition québécoise d'opposition au libre-échange (FTQ-CEQ-CSN-UPA)
- Conférence des industries culturelles canadiennes
- Conseil canadien de l'horticulture
- Conseil des viandes du Canada
- Conseil du patronat du Québec
- Conseil québécois de l'industrie électronique
- Coopérative fédérée du Québec
- Gaz Métropolitain

- Imperial Tobacco
- Institut canadien du tapis
- Institut canadien du textile
- Institut de l'amiante
- Institut des manufacturiers du vêtement du Québec
- Institut québécois du cinéma
- Office des producteurs de tabac jaune
- Ordre des architectes
- Ordre des ingénieurs
- Pétro-Canada
- Pétromont
- Société de développement du livre et du périodique
- Société Kemtec
- Société québécoise des manufacturiers d'habitations
- Ultramar
- Union des artistes
- Union des producteurs agricoles

APPENDIX 4

Resource persons from Québec government departments responsible for adjustment to the Canada-U.S. Free Trade Agreement

- **Monsieur Ghislain Fortin**
  Secrétaire général associé
  Secrétariat au développement économique
  Ministère du Conseil exécutif
  Edifice « J »
  885, Grande-Allée est, rez-de-chaussée
  Québec (Québec)
  G1A 1A2
  Téléphone : (418) 643-5879

- **Monsieur Jean-Nil Pintal**
  Secrétaire
  Comité interministériel sur l'adaptation
  Secrétariat au développement économique
  Ministère du Conseil exécutif
  Edifice « J »
  885, Grande-Allée est, rez-de-chaussée
  Québec (Québec)
  G1A 1A2
  Téléphone : (418) 643-5879

- **Madame Marie-Charlotte de Koninck**
  Directrice de la recherche
  Ministère des Affaires culturelles
  225, Grande-Allée est - Bloc A
  2e étage
  Québec (Québec)
  G1R 5G5
  Téléphone : (418) 644-0375

- **Monsieur Yvon Pomerleau**
  Directeur
  Secrétariat à l'adaptation industrielle
  Ministère de l'Industrie et du Commerce
  710, place d'Youville, 4e étage
  Québec (Québec)
  G1R 4Y4
  Téléphone : (418) 691-5991

- **Monsieur Carl Grenier**
  Directeur général
  Direction générale de la politique commerciale
  Ministère du Commerce extérieur et du
  Développement technologique
  Edifice « H », 4e étage
  Québec (Québec)
  G1R 4Y8
  Téléphone : (418) 649-2306

- **Monsieur Claude Pagé**
  Direction de la politique et des
  programmes de main-d'oeuvre
  Ministère de la Main-d'Oeuvre et de la
  Sécurité du Revenu
  425, St-Amable, 4e étage
  Québec (Québec)
  G1R 4Z1
  Téléphone : (418) 643-1412

- **Monsieur Benoît Lyrette**
  Directeur
  Direction de la planification et de l'évaluation
  Ministère du Travail
  425, St-Amable, 2e étage
  Québec (Québec)
  G1R 4Z1
  Téléphone : (418) 644-2017

- **Monsieur Gilles Côté**
  Direction de l'économie des marchés
  Ministère de l'Agriculture, des Pêcheries et de l'Alimentation
  200-A, chemin Ste-Foy, 10e étage
  Québec (Québec)
  G1R 4Y6
  Téléphone : (418) 643-2632

- **Monsieur François Geoffrion**
  Sous-ministre adjoint
  Ministère de l'Energie et des Ressources
  200-B, chemin Ste-Foy, 10e étage
  Québec (Québec)
  G1R 4X7
  Téléphone : (418) 643-4676

- **Monsieur Gilles Demers**
  Directeur des études structurelles
  Minstère des Finances
  12, rue St-Louis
  R.C. - bureau 22
  Québec (Québec)
  G1R 5L3
  Téléphone : (418) 691-2228

- **Monsieur Louis-Marie Bouchard**
  Direction des recherches
  Office de Planification et de Développement du Québec
  1060, rue Conroy
  Aile St-Amable, 3e étage
  Québec (Québec)
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  Téléphone : (418) 643-4957

- **Monsieur Daniel Beaudet**
  Directeur par intérim aux Affaires économiques et financières
  Secrétariat aux Affaires intergouvernementales canadiennes
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  875, Grande-Allée est
  Québec (Québec)
  G1R 4Y8
  Téléphone :(418) 643-8690

- **Monsieur Denis Carrier**
  Directeur
  Direction de la recherche
  Office des professions du Québec
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  320, Saint-Joseph
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